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SUBJECT: KUWAIT'S PETROCHEMICAL EXPANSION PLANS AND DOW

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Classified By: Economic Counselor Oliver B. John for reasons 1.4 (b & d  
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[1](#)1. (U) Contains business proprietary information.

[1](#)2. (C) Summary: Senior Kuwaiti officials have stressed that they view Dow as a strategic partner, but also that reviving the K-Dow joint venture is not possible in the current economic and political climate. The Petrochemical Industries Corporation has "brainstormed" ideas on what a future smaller JV might look like, but is unwilling to develop them without a clear signal from the GoK that it is willing to support a new JV. The GoK is unlikely to give such a signal until a new parliament is elected and a new cabinet formed. Our sense is that Dow may have been given the impression that political pressure on the Amir or Prime Minister would re-start the deal (or a new deal of similar scale), but this appears unlikely, given parliament's practical ability to block oil sector projects. Political pressure could also backfire and negatively affect key USG interests in Kuwait. Dow's recent communications with post indicate the company's interest in pursuing a smaller-scale deal. End Summary.

Whither Dow with Kuwait?

[1](#)3. (SBU) Senior Kuwaiti officials have consistently told us that they value their strategic relationship with Dow, but that the K-Dow joint venture (as currently structured) is "dead" or "toxic." During her April 24 meeting with Acting GoK Foreign Minister Shaykh Dr. Mohammed Al Sabah, Secretary Clinton sought to understand the reasons underlying the GoK decision to cancel the K-Dow joint venture and to express her hope that a deal could be revived in some fashion. Dr. Mohammed noted that Kuwait viewed Dow as a major strategic partner, pointing to KIA's USD 1 billion contribution to Dow's acquisition of Rohm and Hass following the cancellation of the K-Dow JV. He added that the cancellation of one project should not be interpreted to indicate that the relationship was over. He repeated these points to Ambassador in her follow-up discussions on April 25.

4 (SBU) On April 28, econcouns and econoff met with Petrochemical Industries Company Chairwoman and MD Maha Hussain to discuss PIC's plans to expand its petrochemical business and Dow's place in that expansion. Hussein noted that KPC had allocated \$718 million in its five-year plan to develop the petrochemical industry. Although she acknowledged that the figure was far smaller than the planned \$7.5 billion K-Dow Joint Venture, the actual investment potential would be larger. PIC had calculated the request based on three possible projects (Olefins-3, the Chinese

refinery project, and the new joint venture with Japan to build a refinery in Vietnam (which has a small petrochemical component). The calculation also took into account, PIC's share in Equate (the current JV with Dow), and the possibility of using leverage to make investments. She noted that Equate had taken on debt to fund the recently completed Olefins-2 project.

15. (SBU) In response to Econcouns' question about how PIC saw a future relationship with Dow in the wake of the K-Dow collapse, she stated her understanding that the deal as structured was too big to be revived for the foreseeable future due to the difficult political and economic climate. She said that PIC staff had done some initial, internal brainstorming about what a successor deal might look like. She said, however, that it was essential for the GoK to clearly signal its willingness to move forward on a new deal and to provide guidance on what some of the parameters might be. "We got hit once," she added.

16. (SBU) Strictly by way of example, Hussein said a new deal on the scale of 20-25 percent of Kuwait's original commitment to K-Dow (or in the in the \$1-\$2 billion range) might be feasible. She explained that the original JV included plants in Canada, Europe, the U.S., and Asia and that a new JV would likely either be more limited in scope regionally or include fewer plants in several regions. It would all depend, she added, either on how large a financial commitment the government was willing to make to the JV. Econcouns asked whether she had thought about expanding Equate rather than setting up a separate JV, since Equate had a private sector component and might be more resistant to parliamentary scrutiny. She acknowledged that expanding Equate was a possibility, but noted that it would still raise a funding question. Equate could borrow to fund the JV, but was already leveraged to finance the recently completed Olefins-2 project. The question would be how much it could borrow and at what cost. She thought a \$2 billion investment was possible. The other possibility would be for KPC (or the GoK) to inject capital into Equate as a shareholder. This would cut the borrowing needs, but could raise the same parliamentary concerns about use of public money. (Note: Presumably the other shareholders would also need to inject capital in order to keep the ownership structure consistent. End Note.) Finally, Kuwait could create another private sector investor (via an IPO) to invest in Equate, diluting the shares of the four current shareholders. In any case, Hussein reiterated, PIC needs guidance from the GoK before it moves any further. In a follow-on conversation with the Acting Under Secretary of the Ministry of Oil (a long time ministry employee), he stated that he had no details on the K-Dow deal, noting that this issue was handled by the Kuwait Petroleum Corporation and that connections would have been directly between KPC and the Oil Minister.

The Chinese Refinery J-V

17. (C) According to Hussein, the refinery in China is designed to be a joint venture between Sinopec (A Chinese State Owned Petroleum Company - 50%), PIC (15%), Kuwait Petroleum International (A Kuwait Petroleum Company Subsidiary - 15%), Shell (10%) and Dow (10%). KPI and Shell would partner on the refinery side of the business. PIC and Dow would partner on the petrochemical side. She said that the planned investment had been proceeding smoothly until about April 15. At that time the GoC had instructed the parties to cancel/suspend their environmental survey. According to Hussein, Chinese law provides for a notification process, whereby companies would survey residents to determine the impact of a proposed project and any necessary remediation. Stopping the survey, effectively prevents the "report" from moving forward and stalls the project. Hussein said that Kuwait's acting Oil Minister was currently in China to see if the problems could be resolved. Dr. Mohammed had earlier told both Secretary Clinton and Ambassador that he thought the refinery project might not go forward. It was unclear whether he was referring to Chinese roadblocks or

Kuwaiti concerns about the economics of the investment.

#### A Way Forward

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18. (C) While most of our oil sector interlocutors, and many in the government, acknowledge the value of the K-Dow deal to Kuwait as a way for the country to "move up" the hydrocarbon "value chain," they have all stressed that, as currently designed, it is "dead and buried." The size and cost are too big for the GoK to swallow in the current political/economic environment. The GoK has already cancelled or delayed other major projects and is likely to continue this practice, especially if oil prices stay low. The parliamentary criticism and widespread belief that a middleman (generally suspected to be Fouad Al-Ghanim) made an unreasonable amount of money on the deal and drove up the cost to public funds. Dow and Kuwaiti oil officials have generally denied this, but it remains a commonly held belief in Kuwait, including among senior government officials.

19. (C) Although post plans to follow-up with the acting Oil Minister on his return to Kuwait, the GoK is not likely to move before there is a new government and parliament in place. Whether the GoK will move after that will depend on its own risk/reward calculation (whether it will spark another parliamentary crisis, whether the costs make sense in the current economic environment, etc.). The fact that PIC is unwilling to even present options to the government without a clear signal of GoK willingness to support this type of project complicates the matter considerably. Although it appears that a senior non-ministerial member of the Al Sabah may have given Dow the impression that political pressure at a sufficiently senior level would re-start the deal, post has seen no evidence to support this and it appears unlikely. The Amir explicitly told the Speaker of Parliament, who related this to Ambassador, that he had deliberately avoided VPOTUS' call to advocate on K-Dow's behalf in December. The Secretary has raised it with the Foreign Minister (the senior member of the Salem branch of the Al Sabah), as has Ambassador. We have also raised it with several key members of the Supreme Petroleum Council, including the acting Oil Minister.

110. (C) In contrast to the more authoritarian, and thus streamlined, domestic politics of other GCC states, the National Assembly plays a critical (if not always positive) role in national decision making. Although Parliament's legal authority to decide on hydrocarbon sector projects is limited, its practical influence has increased dramatically in recent years. An activist parliament combined with a weak executive ensures that it will continue to have a major say in oil sector projects. Parliamentary concerns or even opposition will need to be addressed.

111. (C) For its part we would recommend to Dow that it work with its partners in Kuwait on fleshing out its thinking on smaller projects it might want to pursue, taking into account stated Kuwaiti opposition to a project on the scale of K-Dow. Dow has approached post to say that it supports a "more moderate deal" and has requested support in the company's efforts to have the GoK authorize a senior KPC/PIC official to jointly discuss a successor proposal. Post will continue to advocate on Dow's behalf and try to get the GoK to develop its own thinking on what types of projects might be feasible and to provide guidance to KPC/PIC authorizing discussions. After Kuwait forms a new government, it might be appropriate for Dow's CEO to work with KPC to arrange a meeting with the new Oil Minister and other members of the Supreme Petroleum Council as well as key parliamentarians.

112. (C) Obviously, we need to balance any political pressure we bring to bear on Kuwait on Dow's behalf against our other key interests here; we've thus far seen no evidence that pressing the Amir directly, for example, would succeed in reviving a multi-billion dollar K-Dow 2, and it could negatively impact competing and predominant USG interests.

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